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FEDERAL COMMUNICATIONS COMMISSION
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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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In the Matter of	)	
	)	
End User Common Line Charges	)	CC Docket No. 95-72
	)	

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

SOUTHWESTERN BELL TELEPHONE COMPANY

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I. SUMMARY

In this docket, the Commission acknowledges that the Subscriber Line Charge (SLC) was not developed with derived channel services, such as Integrated Services Digital Network (ISDN), in mind.[1] The catalyst for this NPRM was a recent Commission Order that Section 69.104 of the Commission Rules requires assessment of a separate SLC for each derived channel of ISDN service. Thus, if a customer orders ISDN service with 24 channels, the customer must pay 24 SLCs each month. The Commission recognized that its ruling raised many policy issues better decided in a rulemaking and thus commenced this NPRM.[2]

The NPRM identifies several basic principles which should guide this proceeding: to (1) neither hamper nor favor the introduction of new technologies and services; (2) avoid measures that could reduce the level of non-traffic sensitive (NTS) local loop cost now recovered through flat charges, thereby increasing

[1] In the Matter of End User Common Line Charges, Notice of Proposed Rulemaking, CC Docket No. 95-72, para. 10, released May 30, 1995 (NPRM).

[2] Order on Reconsideration, NYNEX Telephone Companies Revisions to Tariff F.C.C. No. 1, Transmittal No. 116, FCC No. 94-356, released January 11, 1955, 10 FCC Rcd 2247 (1995).

interstate toll rates; (3) examine policies that may substantially reduce SLCs to large business customers but not to residential customers; and (4) take into account competitive developments and identify and reduce unnecessary support flows in interstate access rates.[3]

This analytical framework is sound. The challenge will be adopting a policy which best adheres to these principles, some of which, as recognized by the Commission, conflict with one another. It is of the utmost importance that the Commission not hamper the development of full and fair competition in the interstate access market. This principle should not be compromised.

The application of SLCs on derived channel services is just the "tip of the iceberg" of problems with the current access rate structure. Examples of broader problems include the economic distortions caused by geographic averaging, service averaging, and current SLC categories. The application of the multi-line SLC to large multi-line and CENTREX[4] customers is one example where the current applications can result in over recovery of loop costs from certain customers, providing an artificial opportunity for competitors to target these customers. A long term comprehensive solution is needed to address all of the issues.[5]

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[3] NPRM at 9-11.

[4] Plexar is SWBT's Service Mark for CENTREX.

[5] The comprehensive proceeding should address such issues as pricing flexibility, price caps, evaluation of the current residence/business rate structure, impact on Part 36 rules, and the definition of universal service. These issues, however, are not (continued...)

These Comments will focus on the need for a quick fix to the immediate problem of SLC application to derived channel services. At the same time, SWBT recognizes the need for a more comprehensive review of SLCs in the context of access reform and universal service.

II. FOR DERIVED CHANNEL APPLICATIONS, ONE SLC SHOULD BE APPLIED PER SERVICE.

SWBT supports applying one SLC per tariffed local exchange service.[6] Examples include services such as SWBT's Digital Loop℠, Smart Trunk℠, Select Video Plus℠, DigiLine℠, which are provided via DS1s, ISDN Basic Rate Interfaces or Primary Rate Interfaces. Multiple local exchange services provided to customers over a multiplexed facility (e.g. multiple 1FBs provided via digital loop carrier system) would continue to be assessed one SLC per local exchange service. This approach would result in equivalent charges per service and would allow customers to take advantage of the improved access of ISDN and other derived channel services.

This solution would also provide a relatively quick, simple answer to a potentially complex issue. It would be relatively easy to implement, because it would not require any new

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[5](...continued) limited to SLC application, and therefore are better addressed in a broader scope proceeding.

[6] This resembles the Commission's "per-facility" approach but is not identical. In both approaches, for example, both BRI and PRI ISDN customers could pay a single SLC. With SWBT's approach, however, application of SLC is not tied to the facility, which could change with technological advances.

cost calculations, and would provide equitable rate treatment. Additional analysis of common line recovery should be conducted in the broader review of access reform and universal services.

The NPRM notes that the single SLC per service approach "could reduce multiline business SLC revenues over time. This would tend to increase interstate toll rates as a result of increases in LEC CCL [Carrier Common Line] rates."[7] In its Public Notice (DA 95-1168) released May 30, 1995, the Bureau notified LECs that it would not initiate enforcement action for violations of Section 69.104 of the Commission's rules when Subscriber Line Charges (SLCs) are not currently being assessed for each derived channel on ISDN services. The Bureau stated that this action is conditioned on the LECs calculating their Carrier Common Line (CCL) rates as if they were charging a SLC for each derived channel. Since SWBT is currently charging ISDN SLCs on the basis of derived channels, its calculation of the maximum allowable CCL rate under price caps is in compliance. If SWBT changes its method of charging to a per service application, it estimates the impact to be an increase in the current multiline SLC from $5.85 to $5.95. (See Exhibits 1 & 2) This increase in the SLC would be more than offset by the decrease in demand resulting from the new method of charging. The net effect would be an approximate $6.8M reduction in SLC base period revenue annually. (See Exhibit 3) If SWBT changes its current method of charging it will comply with the Bureau's directive in the Public Notice by not changing its current correctly calculated maximum allowable CCL rate. However, the

[7] NPRM at paras. 18, 25 and fn. 36.

current base period minutes per line, the basis for the calculation of the "g" factor in the next annual filing, would be recast to reflect the restructured SLC demand. This would prevent an anomalous reduction in the CCL rate in the next annual filing reflecting usage growth that did not actually occur. In base periods subsequent to the base period in which the change in charging methodology was made, the measured demand would reflect the revised SLC application method and no Common Line formula factor adjustments would be required.

The Commission should ensure that any change in SLC application, that reduces SLC revenue despite an increase in the SLC rate, does not result in a <u>reduction</u> in the CCL rate cap from what it would otherwise be under the Commission's interpretation of the existing application rules. SWBT therefore supports the "Additional Option" suggested in the NPRM which would allow Local Exchange Carriers (LECs) to lower the current level of SLCs for derived channel services to encourage service development, but keep SLCs high enough to prevent an increase in CCL charges, which would lead to higher access rates. SWBT also supports the allowance of necessary increases in other SLC rates, mainly single line SLCs, to offset reductions in SLCs charged for derived channel services.

The Commission also is concerned that the, "per facility approach" would lead to SLCs lower for large business customers than for residence or single line business. To reach this conclusion, the Commission compares the per channel SLC amount for an ISDN PRI service to a per channel SLC amount of an ISDN BRI service. A PRI customer charged a single $6.00 SLC for 24 channels would, according to the NPRM, pay a per channel cost of $0.25. A BRI customer, on the other hand, charged a $3.50 SLC for two channels would pay a per channel cost of $1.75.

The NPRM concludes that business customers would pay lower SLCs per channel than residence customers, which is true, but of little consequence. A residence customer requiring only BRI service would not incur the additional cost of PRI service just to obtain a per channel charge of 25 cents. Overall cost will influence customer decisions, not the per channel SLC charge.

Moreover, given the technological advances in the areas of videoconferencing, distance learning and telemedicine, the demand for higher bandwidth services has extended to small and mid-sized business customers such as smaller training firms and medical clinics. These customers will benefit from the implicit price reduction caused by the restructured SLC application.

The NPRM is also concerned that "applying SLCs based on the number of copper pairs used by a customer is not feasible if a customer's local loop is provided over coaxial or fiber optic cable."[8] This is exactly why the Commission should not tie SLC applicability to the facility. Instead, assessment can be made by service or access connection, whether provided over copper, coax or fiber. Ultimately, if SLCs were deaveraged, service cost differences could be accounted for in rates.

A. Equitable Rate Treatment

The SLC is designed to recover the interstate allocation of NTS Loop Costs. Thus non-traffic sensitive loop costs per

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[8] Id.

service do not change with the volume of traffic transmitted or the call carrying capacity of the customer's access facility. Thus, there is no logical rationale for imposing multiple SLCs upon a loop facility used for ISDN. The costs incurred by increased utilization of the network are, rather, more appropriately recovered from usage-based charges. No other service is assessed multiple SLCs based upon the relative use or call carrying capacity of the facility used for the service. ISDN and other derived channel services should be no different.

B. Average Loop Costs

Existing rules develop a single average loop cost per study area, which represents the "average" cost of providing customers with access from their premises to their Class 5 serving office. The current rules do not separately identify loop costs for individual services.

Numerous factors influence loop cost--network design, type of technology, wire center density, distance from central office, service type and number of services provided to a single premises. Generally, basic loop costs are lower for business customers than residence customers, because businesses are located predominantly in densely populated areas. Identifying service-specific loop costs (the theory underlying application of multiple SLCs to ISDN) would likely produce residential loop costs higher than business loop costs, rural loop costs higher than urban loop cost, and single line business loop costs higher than multiline loop costs. Such cost variations are not reflected in current

SLCs. If SLCs were deaveraged to reflect underlying costs, rates would be more competitive.

To fully evaluate interstate Common Line cost recovery issues, intrastate rates and interstate CCL rates must also be considered. While SWBT supports reexamining the current average costing methodologies, costing issues impact more than just common line costs and therefore are better addressed in a more comprehensive proceeding which also addresses other access service rate elements.

C. Services Versus Technologies and Network Designs

The application of charges should be on a service basis and not tied to a specific technology or network design. Maintaining tariff application on a service basis is consistent with the Commission's goal of neither unfairly favoring nor penalizing new technologies. Applying multiple SLCs to ISDN or other derived channel services, on the other hand, is a clear penalty.

Providing rate application on the basis of services, rather than specific technologies, network designs or facilities, allows carriers to continuously upgrade and modernize the public network, utilizing the most efficient technologies and network designs. For example, the most economical provisioning of multiple, single-party, local exchange lines to an apartment complex may be by digital loop carrier, but the most economical provisioning of local exchange service to another residential area may be by copper pairs. Regulatory rules that assess SLCs based upon the physical provisioning of services to customers (for example, multiple SLCs on ISDN), instead of on the basis of service connections ordered by the customer, could price certain services out of the market and result in regulators effectively controlling the design of the public network instead of the market making that decision.

III. <u>THE PROPOSED INTERMEDIATE OPTIONS WOULD IMPEDE THE MARKET</u>.

The intermediate options proposed by the NPRM are arbitrary and designed simply to achieve a predetermined result--no toll or CCL increases.

The first option is a middle of the road approach which would apply to SLCs a ratio based on ISDN loop cost to average loop cost. ISDN, however, does not <u>increase the average loop cost</u>. The difference in cost between average loop and ISDN comes from switching equipment used for ISDN. Although it may be desirable to allow recovery of additional ISDN switching costs, applying to the SLC the ratio of ISDN loop and switching costs to average loop costs would produce a completely arbitrary result not reflecting true costs and therefore impairing fair competition. There is simply no compelling reason to support this approach.

A second option proposed is reducing SLCs for derived channel connections to 50 percent of the level required by the current rules. This is also completely arbitrary. Moreover, as discussed above, loop costs do not vary by the number of channels provided over the loop. There is no cost basis for using 50 (or any other) percent of derived channels to determine SLCs.

IV. THE PART 36 DEFINITION OF "LINES" SHOULD ONLY BE ADDRESSED AS PART OF A COMPREHENSIVE REVIEW OF ALL PART 36 PROCEDURES.

The Commission's recent Order that a separate SLC should be applied to each channel of ISDN service was based in large measure on the current Part 36 definition of "line."[9] The NPRM considers adopting a different definition for the Part 69 access charge rules, and inquires if referral to a Joint Board would be necessary.[10]

There is no need for a precise match between how separations counts a loop and how the number of SLCs is charged to users of ISDN service. The Part 36 Rules deal with the identification of facility or infrastructure costs, not specific service costs. The Part 36 Rules provide for a reasonable jurisdictional allocation of loop costs.

The Part 69 Rules, on the other hand, are concerned with charges for access service. As competition increases in the local exchange market, the Part 69 Rules must allow regulated carriers such as SWBT to reduce access charges. Thus, the Part 69 definition of "line" can and should differ from the Part 36 definition.

Referral to a Joint Board would delay a rapid resolution of the immediate issue--application of SLCs for ISDN and other derived channel services. SWBT believes that, rather than referring items related to specific services to a Joint Board, the Commission should, subsequent to this docket, institute a

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[9] See footnote 3.

[10] NPRM at 16.

comprehensive review of all Part 36 procedures, based on new technologies and expanding competition.

V. CONCLUSION.

For the reasons discussed above, the Commission should adopt the per-facility approach and require that only a single SLC be applied per individual ISDN or other derived channel services.

Respectfully submitted,

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June 29, 1995

EXHIBIT 1

EUCL RATE DEVELOPMENT
(PRE-RESTRUCTURE)

1)	RESIDENCE LINES		9,193,705
2)	SINGLE LINES - BUSINESS		321,924
3)	MULTILINE BUSINESS #		3,793,322
4)	LIFELINE - RESIDENCE		181,211
5)	TOTAL LINES	L1+L2+L3+L4	13,490,162
6)	COMMON LINE - BASE FACTOR REVENUE REQUIREMENT		$948,126,000
7)	RATE PER LINE/MONTH #	L6/(L5*12)	$5.86
8)	RESIDENCE REV. ($3.50)	(L1+L4)*$3.50*12	$393,746,472
9)	SINGLE LINE BUS. REV. ($3.50)	L2*$3.50*12	$13,520,808
10)	MULTILINE BUSINESS REV. #	L3*L12*12	$266,291,204
11)	TOTAL END USER REV.	L8+L9+L10	$673,558,484
12)	FINAL MULTILINE BUSINESS RATE #		$5.85

INCLUDES CENTREX CO AND CO-LIKE.

NOTE: DEMAND QUANTITIES CONTAINED ON LINES 1 THROUGH 4 ARE AVERAGE-IN-SERVICE LINES.

EXHIBIT 2

EUCL RATE DEVELOPMENT
(POST-RESTRUCTURE)

1) RESIDENCE LINES		9,193,705
2) SINGLE LINES - BUSINESS		321,924
3) MULTILINE BUSINESS #		3,625,776
4) LIFELINE - RESIDENCE		181,211
		-------------
5) TOTAL LINES	L1+L2+L3+L4	13,322,616
6) COMMON LINE - BASE FACTOR REVENUE REQUIREMENT		$948,126,000
7) RATE PER LINE/MONTH #	L6/(L5*12)	$5.93
8) RESIDENCE REV. ($3.50)	(L1+L4)*$3.50*12	$393,746,472
9) SINGLE LINE BUS. REV. ($3.50)	L2*$3.50*12	$13,520,808
10) MULTILINE BUSINESS REV. #	L3*L12*12	$258,880,406
11) TOTAL END USER REV.	L8+L9+L10	$666,147,686
12) FINAL MULTILINE BUSINESS RATE #		$5.95

INCLUDES CENTREX CO AND CO-LIKE.

NOTE: DEMAND QUANTITIES CONTAINED ON LINES 1 THROUGH 4 ARE AVERAGE-IN-SERVICE LINES.

EXHIBIT 3

DEVELOPMENT OF EUCL REVENUE

1)	1994 SPECIAL ACCESS SURCHARGE DEMAND (AVG-IN-SVC)	5,385
2)	1994 SINGLE LINE EUCL DEMAND (AVG-IN-SVC)	9,253,927
3)	1994 LIFELINE EUCL DEMAND (AVG-IN-SVC)	132,640
4)	1994 MULTILINE EUCL DEMAND (AVG-IN-SVC) #	3,461,925
5)	1994 RESTRUCTURED MULTILINE EUCL DEMAND (AVG-IN-SVC) #	3,309,016 *
6)	CURRENT SPECIAL ACCESS SURCHARGE RATE	$25.00
7)	CURRENT SINGLE LINE EUCL RATE	$3.50
8)	CURRENT LIFELINE EUCL RATE	$3.50
9)	CURRENT MULTILINE EUCL RATE #	$5.85
10)	PROPOSED SPECIAL ACCESS SURCHARGE RATE	$25.00
11)	PROPOSED SINGLE LINE EUCL RATE	$3.50
12)	PROPOSED LIFELINE EUCL RATE	$3.50
13)	PROPOSED MULTILINE EUCL RATE #	$5.95
14)	1994 BP SPECIAL ACCESS SURCHARGE REVENUE (L1*L6*12)	$1,615,500
15)	1994 BP SINGLE LINE EUCL REVENUE (L2*L7*12)	$388,664,934
16)	1994 BP LIFELINE EUCL REVENUE (L3*L8*12)	$5,570,880
17)	1994 BP MULTILINE EUCL REVENUE (L4*L9*12) #	$243,027,135
18)	PROPOSED SPECIAL ACCESS SURCHARGE REV. (L1*L10*12)	$1,615,500
19)	PROPOSED SINGLE LINE EUCL REVENUE (L2*L11*12)	$388,664,934
20)	PROPOSED LIFELINE EUCL REVENUE (L3*L12*12)	$5,570,880
21)	PROPOSED MULTILINE EUCL REVENUE (L4*L13*12) #	$236,263,742
22)	TOTAL 1994 BP EUCL REVENUE (L14..L17)	$638,878,449
23)	TOTAL PROPOSED EUCL REVENUE (L18..L21)	$632,115,056
24)	EUCL REVENUE CHANGE (L23-L22)	($6,763,393)

INCLUDES CENTREX CO AND CO-LIKE.

* BASE PERIOD MULTILINE EUCL DEMAND WAS REDUCED BY THE SAME PERCENTAGE AS FORECASTED DEMAND (3,461,925 TO 3,309,016).

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, "Comments of Southwestern Bell Telephone Company," in CC Docket No. 95-72 has been filed this 29th day of June, 1995 to the Parties of Record.

Katie M. Turner

Katie M. Turner

June 29, 1995

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